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AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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February 23, 2004

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley 
Auditor-Controller

SUBJECT: **AUDIT OF THE LOS ANGELES COUNTY REGIONAL PARK AND
OPEN SPACE DISTRICT FOR THE YEAR ENDED JUNE 30, 2003**

Attached are the financial statements for the Los Angeles County Regional Park and Open Space District (District) for the year ended June 30, 2003. Pursuant to Government Code Section 26909, the statements have been audited by a Certified Public Accountant; Conrad and Associates, L.L.P.

The attached auditor's report concludes that the financial statements are presented fairly in conformance with generally accepted accounting principles and State regulations governing special districts. The auditors did note that the District needs to ensure that agencies receiving funds retain supporting documentation for maintenance and service costs incurred. This issue is discussed further in the auditor's attached management letter.

If you have any questions, please contact me or your staff may call DeWitt Roberts at (626) 293-1101.

JTM:DR:JS:GM
Attachments

c: David E. Janssen, Chief Administrative Officer
Tim Gallagher, Director, Department of Parks and Recreation
Curt Robertson, Administrator, Regional Park and Open Space District
Violet Varona-Lukens, Executive Officer
Public Information Officer
Audit Committee

LOS ANGELES COUNTY REGIONAL PARK
AND OPEN SPACE DISTRICT

Financial Statements and
Supplementary Information

Year Ended June 30, 2003

(With Independent Auditors' Report Thereon)

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LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Financial Statements

Year Ended June 30, 2003

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Board of Supervisors
Los Angeles County Regional Park
and Open Space District
Los Angeles, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, and the major fund information of the Los Angeles County Regional Park and Open Space District (the "District") as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the management of the District. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the major fund information of the Los Angeles County Regional Park and Open Space District as of June 30, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America and State regulations governing special districts.

The information identified in the accompanying table of contents as *Management's Discussion and Analysis* and *Required Supplementary Information* are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 13, 2003 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Conrad and Associates, L.L.P.

November 13, 2003

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Management's Discussion and Analysis For the Year Ended June 30, 2003

Management's discussion and analysis of the Los Angeles County Regional Park and Open Space District (the District) provides a narrative overview of the District's financial activities for the fiscal year ended June 30, 2003. Please read it in conjunction with the accompanying financial statements, footnotes, and supplementary information.

In June 1999, the Governmental Accounting Standards Board (GASB), which sets the financial reporting rules for all State and Local Governments, established a new framework for financial reports known as GASB 34. As required, the District is adopting the reporting guidelines established by GASB 34 for its financial statements as of June 30, 2003.

The changes to the financial statements in the government-wide section now provide reporting that is similar to private sector companies by showing financial statements with a "Net Assets" bottom line approach. However, government agencies are mandated to account for certain resources and activities separately, thereby necessitating a fund by fund financial format as shown in the fund based financial statements section. The presentation of these two different types of statements together in one report requires the inclusion of two very sophisticated reconciliations found in Notes 2 (a) and (b) to better assist the reader.

Financial Highlights

- As more fully explained in the government-wide financial analysis below and in footnote 10 to the financial statements, net assets were negative \$74 million at June 30, 2003.
- During the current year, the District's net assets increased by \$10 million.
- The District's ending fund balance decreased by \$8 million, to \$319 million, reflecting a \$19 million decrease in pooled cash and investments and interest receivable, partially offset by an \$11 million decrease in liabilities for reimbursable projects and arbitrage.
- The District made \$17.6 million in principal reduction payments on its outstanding debt during fiscal year 2003.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Management's Discussion and Analysis

(Continued)

Financial Statement Overview

This annual report consists of a series of financial statements: 1) government-wide financial statements, 2) fund based financial statements, and 3) notes to the financial statements. In addition to the financial statements, this report contains required supplementary information and additional supplementary schedules.

Government-wide financial statements: The government-wide financial statements are designed to provide a broad overview of the District activities and present a longer-term view of the District's finances.

- The Statement of Net Assets presents all of the District's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator to determine whether the financial position of the District is improving or deteriorating.
- The Statement of Activities presents information showing how the District's net assets changed during the fiscal year. All changes in net assets (revenues and expenses) are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Accordingly, revenues and expenses are reported in this statement for items that will result in cash flows in future fiscal periods (e.g. uncollected assessment revenues, and accrued but unpaid interest expenses).

The government-wide financial statements can be found on pages 10-11 of this report.

Fund based financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the District are Governmental fund types.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Management's Discussion and Analysis

(Continued)

- **Governmental Funds** – All of the District's activities are reported in governmental funds. These funds are reported using modified accrual accounting, which measures, cash, and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed view of the District's operations. Governmental fund information helps to determine the amounts of financial resources used to finance the District's programs.

Net asset/net equity differences between the government-wide and fund based statements are highlighted on pages 13 and 23-24 and are primarily the result of the inclusion of bonds payable, accrued interest on bonds payable, and deferred revenue in the government-wide liabilities.

The difference between the change in net assets/fund balances on the government-wide versus fund based statements is highlighted on pages 15 and 25-27 and is primarily the result of the expensing the repayment of bond principal in the fund based statements.

Notes to the Financial Statements: The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund based financial statements.

Government-wide Financial Analysis

Our government-wide analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) for the District's governmental activities.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Management's Discussion and Analysis

(Continued)

Table 1
Net Assets
(in Thousands)

	Governmental Activities	
	<u>FY 2003</u>	<u>FY 2002</u>
Current and other assets	<u>\$ 332,951</u>	<u>\$ 352,324</u>
Total assets	332,951	352,324
Long-term debt outstanding	394,735	412,295
Other liabilities	<u>11,809</u>	<u>23,181</u>
Total liabilities	406,544	435,476
Net assets:		
Restricted		
Unrestricted	<u>(73,593)</u>	<u>(83,152)</u>
Total net assets	<u>\$ (73,953)</u>	<u>\$ (83,152)</u>

GASB Statement 34 requires that the government-wide statements reflect a liability for the \$394.7 million in outstanding bonds issued to finance park improvements, but does not permit the recognition of assets for future assessment revenues that are pledged for the annual debt service payments on the bonds. In addition, amounts distributed to the cities and other eligible entities are expensed by the District. As a result, the Statement of Net Assets shows negative net assets of approximately \$74 million.

Total assets of the District decreased by 5.5% from the prior year to \$333 million due to a \$17.5 million decrease in pooled cash and investments and a \$2 million decrease in interest receivable.

Total liabilities of the District decreased by 6.6% from the prior year to \$406.5 million due to a \$17.6 million decrease in long-term liabilities (bonds payable), a \$3.9 million decrease in arbitrage payable, and a \$7.5 million decrease in project related expenditure accruals.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Management's Discussion and Analysis

(Continued)

Total net assets increased \$9.6 million to negative \$73.6 million due to an excess of general revenues (\$90.2 million in assessment revenue and investment income) over government expenses (\$80.7 million in park improvements, bond interest expense, maintenance and administration).

Table 2
Changes in Net Assets
(in Thousands)

	<u>Governmental Activities</u> <u>(Summary of Statement of</u> <u>Activities)</u>	
	<u>FY 2003</u>	<u>FY 2002</u>
Revenues		
General revenues		
Assessment	\$ 78,411	\$ 80,659
Investment income	10,580	11,735
Other revenue	<u>1,240</u>	<u>0</u>
Total revenues	90,231	92,394
Expenses		
General government	59,729	73,931
Interest expense	<u>20,943</u>	<u>21,989</u>
Total expenses	<u>80,672</u>	<u>95,920</u>
Increase (decrease) in net assets	<u>\$ 9,559</u>	<u>\$ (3,526)</u>

Fund Based Financial Analysis

The District's governmental funds reported combined fund balances of \$318.8 million at June 30, 2003, a decrease of \$8.2 million from the previous year. The decrease reflects an excess of expenditures for park improvements, debt service, administration and maintenance (\$98.5 million) over revenues from charges for services (assessments), investment and other income (\$90.3 million).

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Management's Discussion and Analysis

(Continued)

Capital Assets

All park improvement grants are expensed by the District and are capitalized in the agencies receiving the grant funds. Hence, the District has no capital assets.

Debt Management

At June 30, 2003, the District had Bonds Payable of \$394,735,000, the proceeds of which are being used to fund various park improvement projects and a debt service reserve fund. The debt service payments are secured by the District's annual benefit assessment to each assessable parcel as approved by the voters in 1992 and 1996. The District repaid \$17.6 million in bond principal during fiscal year 2003.

Budgets

There were no changes between the District's original and final budget.

In the District's General Fund, the budgeted expenditures included encumbrances of \$133 million reflecting the District's obligations to fund future park improvements. These future expenditures will be funded with additional debt proceeds or assessment revenues (shown as Long-Term Debt Proceeds in the budget). During fiscal year 2003, less park projects were funded than the amount budgeted and no new bonds were issued.

In the District's Debt Service Fund, budgeted debt service exceeded actual debt service by \$26.9 million due to the District's practice of reserving the debt service payment for the following October prior to the end of the fiscal year.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the County of Los Angeles, Department of Auditor-Controller, 500 West Temple Street, Los Angeles, CA 90012.

BASIC FINANCIAL STATEMENTS

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Statement of Net Assets

June 30, 2003

(in Thousands)

	Governmental <u>Activities</u>
ASSETS:	
Pooled cash and investments (note 6)	\$ 320,911
Assessments receivable	10,689
Interest receivable	<u>1,351</u>
Total assets	<u>332,951</u>
LIABILITIES:	
Accounts payable	2,767
Accrued interest payable	5,176
Arbitrage payable	204
Due to Los Angeles County (note 5)	3,662
Long-term liabilities (note 7):	
Due within one year	18,525
Due in more than one year	<u>376,210</u>
Total liabilities	<u>406,544</u>
NET ASSETS:	
Unrestricted (note 10)	<u>(73,593)</u>
Total net assets	<u><u>\$ (73,593)</u></u>

See accompanying notes to financial statements.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Statement of Activities

Year Ended June 30, 2003

(in Thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Governmental Activities
	<u>Expenses</u>	<u>Services</u>	<u>and Grants</u>	<u>and Grants</u>	<u>2003</u>
Governmental activities:					
Recreation and cultural services	\$ 59,729	-	-	-	(59,729)
Interest expense	<u>20,943</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20,943)</u>
Totals	<u>\$ 80,672</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(80,672)</u>
General revenues:					
Assessment revenue					78,411
Investment income					10,580
Other revenue					<u>1,240</u>
Total general revenues					<u>90,231</u>
Change in net assets					9,559
Net assets at beginning of year					<u>(83,152)</u>
Net assets at end of year					<u>\$ (73,593)</u>

See accompanying notes to financial statements.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Balance Sheet

Governmental Funds

June 30, 2003

(in Thousands)

	General	Debt Service	Totals
<u>Assets</u>			
Pooled cash and investments	\$ 254,279	66,632	320,911
Assessments receivable	10,689	-	10,689
Interest receivable	1,213	138	1,351
Total assets	<u>\$ 266,181</u>	<u>66,770</u>	<u>332,951</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 2,767	-	2,767
Arbitrage payable	204	-	204
Due to Los Angeles County	3,662	-	3,662
Deferred revenue	7,476	-	7,476
Total liabilities	<u>14,109</u>	<u>-</u>	<u>14,109</u>
Fund balances:			
Reserved:			
Encumbrances	133,055	-	133,055
Debt Service	-	66,770	66,770
Unreserved:			
Undesignated	119,017	-	119,017
Total fund balances	<u>252,072</u>	<u>66,770</u>	<u>318,842</u>
Total liabilities and fund balances	<u>\$ 266,181</u>	<u>66,770</u>	<u>332,951</u>

See accompanying notes to financial statements.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets

Governmental Funds

June 30, 2003

(in Thousands)

Fund balance of governmental activities	\$ 318,842
Amounts reported for governmental activities in the statement of activities are different because:	
Revenues that do not provide current financial resources are not reported as revenues in the funds.	7,476
The following long-term liabilities, are not due and payable in the current period therefore are not reported in the funds.	
Bonds Payable	(394,735)
Accrued liabilities in the statement of net assets differ from the amount reported in governmental funds due to accrued interest on Bonds Payable.	<u>(5,176)</u>
Net assets of governmental activities	<u><u>\$ (73,593)</u></u>

See accompanying notes to financial statements.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2003

(in Thousands)

	General	Debt Service	Totals
Revenues:			
Assessments	\$ 78,433	-	78,433
Investment income	10,219	361	10,580
Other revenue	1,240	-	1,240
Total revenues	89,892	361	90,253
Expenditures:			
Current:			
Services and supplies	4,369	-	4,369
Park improvements	41,921	-	41,921
Maintenance and servicing costs	13,439	-	13,439
Debt service:			
Principal	-	17,560	17,560
Interest	-	21,184	21,184
Total expenditures	59,729	38,744	98,473
Excess (deficiency) of revenues over (under) expenditures	30,163	(38,383)	(8,220)
Other financing sources (uses):			
Transfers in (note 8)	-	38,632	38,632
Transfers out (note 8)	(38,632)	-	(38,632)
Total other financing sources (uses)	(38,632)	38,632	-
Net changes in fund balances	(8,469)	249	(8,220)
Fund balances at beginning of year	260,541	66,521	327,062
Fund balances at end of year	\$ 252,072	66,770	318,842

See accompanying notes to financial statements.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities

Year Ended June 30, 2003

(in Thousands)

Net change in fund balances - total governmental funds	\$ (8,220)
Amounts reported for governmental Statement of Revenues, Expenditures and Changes in Fund Balances differs from the amounts reported in the Statement of Activities because:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(22)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduced long-term liabilities in the statement of net assets.	17,560
Accrued interest for Bonds Payable. This is the net change in accrued interest for the current period.	<u>241</u>
Change in net assets of governmental activities	<u>\$ 9,559</u>

See accompanying notes to financial statements.

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LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

Year ended June 30, 2003

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) History and Organization

The following is a summary of the significant accounting policies of the Los Angeles County Regional Park and Open Space District (the "District"):

General

Proposition A was passed by the voters on November 3, 1992, which provided for the formation of the assessment district "Regional Park and Open Space District" (the "District"). The District was formed and the assessments levied pursuant to Sections 5538.9 and 5539.9 of the California Public Resources Code. The objectives of the District are to improve the quality of life in the County of Los Angeles through the preservation of beaches, parks, and wildlands; the construction, renovation and improvement of new and existing recreational facilities; and the restoration of rivers, streams, and trails. These powers are exercised through the County of Los Angeles (the "County") Board of Supervisors, which acts as the governing body of the District. Among its duties, it approves the District's budget, determines the District's assessment rates, approves contracts, and determines when to issue bonds authorized by the voters of the District. On November 5, 1996, the voters approved the Safe Neighborhood Parks Proposition 1996, which provided for the District to levy additional assessments and to amend the method of assessments within the District.

Reporting Entity

The District is a component financial reporting unit of the County of Los Angeles, as the governing board of the County also serves as the District's governing board, and the County is financially accountable for the District.

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by generally accepted accounting principles ("GAAP"). The District does not have any component units.

The District is included as a component unit in the County financial reporting entity and is included in the County's comprehensive annual financial report for the year ended June 30, 2003.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of Accounting and Measurement Focus

The *basic financial statements* of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

Financial reporting is based upon all GASB pronouncements, as well as the FASB Bulletins that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after November 30, 1989 are not followed in the preparation of the accompanying financial statements.

Government-wide Financial Statements

Government-wide financial statements display information about the District as a whole. These statements include separate columns for the government and business-type activities of the primary government. The District does not have business-type activities. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they are allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the District.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Government-wide Financial Statements (Continued)

Program revenues include charges for services and payments made by parties outside of the reporting District's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the Statement of Activities to present the net cost of each program. The District did not have any program revenues for the year then ended.

Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Fund Financial Statements

The underlying accounting system of the District is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures.

Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental funds are presented after the government-wide financial statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. The District has no non-major funds.

Governmental Fund Types

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that amounts were collected during the reporting period or soon enough

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Governmental Fund Types (Continued)

thereafter to be available to finance the expenditures accrued for the reporting period. For this purpose, the District uses an availability period of 60 days for assessment revenues and 1 year for investment income.

Assessments and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period. Other revenue items are considered to be measurable and available when cash is received by the district.

Exchange transactions are recognized as revenues in the period in which they are earned (i.e. the related goods or services are provided). *Locally imposed tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed non-exchange transactions* are recognized as revenues in the period for which they are imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of “available expendable resources.” Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available expendable resources” during a period.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. However, special reporting treatments are used to indicate that they should not be considered “available expendable resources” since they do not represent net current assets. Recognition of governmental fund type revenue represented by non-current receivables are deferred until they become current receivables.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Governmental Fund Types (Continued)

Non-current portions of other long-term receivables are offset by fund balance reserve accounts.

As a result of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as government fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as an *other financing source* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenditures are considered to be paid first from restricted resources and then from unrestricted resources.

(c) Major Funds

The major funds of the District are as follows:

General Fund:

The General Fund is available for any authorized purpose and is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund:

The Debt Service Fund is used to account for accumulation of resources for, and the payment of principal and interest.

(d) Cash and Investments

Investments are reported in the accompanying balance sheet at fair value, except for certain certificates of deposit and investment contracts that are

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Cash and Investments (Continued)

reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

All cash and investment balances of the District are pooled and invested by the County Treasurer and are subject to withdrawal from the pool upon demand. Each fund's share in this pool is displayed in the accompanying financial statements as pooled *cash and investments*. Investment income earned by the pooled investments is allocated to the various funds based on fund's average cash and investment balance, as provided by California Government Code Section 53647.

(e) Capital Assets

The District provides funding to other entities, including the County, for purposes of acquiring real property. Title to properties acquired is recorded in the name of the purchasing entity, not the District. Accordingly, there are no capital assets recorded on the statement of net assets.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

(a) Explanation of Difference between Governmental Funds Balance Sheet and the Statement of Net Assets

"Total fund balances" of the District's governmental funds were \$318,842,000, which differs from the "net assets" of governmental activities amount of \$(73,593,000), reported in the Statement of Net Assets. This difference primarily results from the long-term economic focus of the Statement of Net Assets versus the current financial resources focus of the governmental fund balance sheets. The following adjustments have been made to effect this difference and are further illustrated in the accompanying schedule.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

(a) Explanation of Difference between Governmental Funds Balance Sheet and the Statement of Net Assets (continued)

Long-term Debt Transactions

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the statement of net assets.

Bonds payable	<u>\$394,735,000</u>
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Accrued Interest

Accrued liabilities in the Statement of Net Assets differ from the amount reported in governmental funds due to accrued interest on bonds payable.

Accrued interest added	<u>\$5,176,000</u>
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Deferred Revenue

Governmental funds recognize revenues when they are *measurable and available*. The government-wide statement of activities, however, is *not* subject to this availability criterion. Therefore, amounts related to certain assessments are deferred for the governmental funds but are recognized as revenue for the government-wide financial statements.

Deferred revenue	<u>\$7,476,000</u>
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Reclassifications and Eliminations

Interfund balances must generally be eliminated in the government-wide statements, except for net residual amounts due between governmental activities. Any allocations must reduce the expenses of the function from which the expenses are being allocated, so that expenses are reported only once, in the function in which they are allocated.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

(a) Explanation of Difference between Governmental Funds Balance Sheet and the Statement of Net Assets (continued)

(in Thousands)

	Total Governmental Funds	Certain Deferred Revenue	Long-term Debt Transactions	Interest Payable	Reclassification and Eliminations	Statement of Net Assets
ASSETS:						
Pooled cash and investments	\$320,911	-	-	-	-	320,911
Assessment receivable	10,689	-	-	-	-	10,689
Interest receivable	<u>1,351</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,351</u>
Total assets	<u>\$332,951</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>332,951</u>
LIABILITIES AND FUND BALANCES/NET ASSETS:						
Accounts payable	\$ 2,767	-	-	-	-	2,767
Accrued interest	-	-	-	5,176	-	5,176
Arbitrage payable	204	-	-	-	-	204
Due to Los Angeles County	3,662	-	-	-	-	3,662
Deferred revenue	7,476	(7,476)	-	-	-	-
Long-term liabilities - due within one year	-	-	-	-	18,525	18,525
Long-term liabilities – non current	<u>-</u>	<u>-</u>	<u>394,735</u>	<u>-</u>	<u>(18,525)</u>	<u>376,210</u>
Total liabilities	<u>14,109</u>	<u>(7,476)</u>	<u>394,735</u>	<u>5,176</u>	<u>-</u>	<u>406,544</u>
Fund balances/net assets	<u>318,842</u>	<u>7,476</u>	<u>(394,735)</u>	<u>(5,176)</u>	<u>-</u>	<u>(73,593)</u>
Total liabilities and fund balances/net assets	<u>\$332,951</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>332,951</u>

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

(b) Explanation of Differences between Governmental Fund Operating Statements and the Statement of Activities

The “net change in fund balances” for governmental funds was \$(8,220,000), which differs from the “change in net assets” for governmental activities of \$9,559,000 reported in the Statement of Activities. The differences arise primarily from the long-term economic focus of the Statement of Activities versus the current financial resources focus of the government funds. The following adjustments are explained below and are illustrated in the following schedule.

Long-term Debt Transactions

Repayment of bond principal is reported as an expenditure in governmental funds operating statement and, therefore, has the effect of reducing fund balance because current financial resources have been used. For the District as a whole, however, the principal payments reduce the liabilities in the Statement of Net Assets and do not result in an expense in the Statement of Activities.

Principal payments made	<u>\$17,560,000</u>
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Accrued Interest

This is the net change in accrued interest for the current period.

Accrued interest	<u>\$241,000</u>
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Arbitraged Interest

Any liability for arbitrated interest is recorded in the fund incurring the liability and interest income is reduced by the amount of the liability incurred during the year.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

(b) Explanation of Differences between Governmental Fund Operating Statements and the Statement of Activities (continued)

Deferred Revenue

Governmental funds recognize revenues when they are *measurable and available*. The government-wide statement of activities, however, is *not* subject to this availability criterion. Therefore, amounts related to certain assessments are deferred for the governmental funds but are recognized as revenue for the government-wide financial statements.

Deferred revenue	<u><u>\$(22,000)</u></u>
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Reclassifications and Eliminations

Interfund balances must generally be eliminated in the government-wide financial statements, except for net residual amounts due between governmental activities. Any allocation must reduce the expenses of the function from which the expenses are being allocated, so that expenses are reported only once, in the function in which they are allocated. Certain reclassifications are made to convert expenditure classifications in the fund financial statements to those required for the statement of activities.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

(b) Explanation of Differences between Governmental Fund Operating Statements and the Statement of Activities (continued)

(in Thousands)

	Total Governmental Funds	Certain Deferred Revenue	Long-term Debt Transactions	Interest Payable	Reclassification and Eliminations	Statement of Net Assets
REVENUES:						
Assessment revenue	\$ 78,433	(22)	-	-	-	78,411
Investment income	10,580	-	-	-	-	10,580
Other revenue	<u>1,240</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,240</u>
Total revenues	<u>90,253</u>	<u>(22)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>90,231</u>
EXPENDITURES:						
Current:						
Recreation and cultural services	59,729	-	-	-	-	59,729
Debt service:						
Principal	17,560	-	(17,560)	-	-	-
Interest	<u>21,184</u>	<u>-</u>	<u>-</u>	<u>(241)</u>	<u>-</u>	<u>20,943</u>
Total expenditures	<u>98,473</u>	<u>-</u>	<u>(17,560)</u>	<u>(241)</u>	<u>-</u>	<u>80,672</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(8,220)</u>	<u>(22)</u>	<u>17,560</u>	<u>241</u>	<u>-</u>	<u>9,559</u>
OTHER FINANCING SOURCES (USES):						
Transfers in	38,632	-	-	-	(38,632)	-
Transfers out	<u>(38,632)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,632</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances/net assets	(8,220)	(22)	17,560	241	-	9,559
Fund balances/net assets, at beginning of year	<u>327,062</u>	<u>7,498</u>	<u>(412,295)</u>	<u>(5,417)</u>	<u>-</u>	<u>(83,152)</u>
Fund balances/net assets, at end of year	<u>\$318,842</u>	<u>7,476</u>	<u>(394,735)</u>	<u>(5,176)</u>	<u>-</u>	<u>(73,593)</u>

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

3. RECONCILIATION OF OPERATIONS ON MODIFIED ACCRUAL BASIS TO BUDGETARY BASIS

In accordance with the provisions of Section 2900-29144 of the Government Code of the State of California (the "Government Code"), commonly known as the County Budget Act, a District budget is adopted on or before August 30 for each fiscal year. Budgets are adopted for the General Fund and Debt Service Fund on a basis of accounting, which is different from generally accepted accounting principles ("GAAP").

For budgetary purposes, encumbrances and other reserves are also recorded as other financing uses at the time they are established. For encumbrances, this occurs at the time contracts or other purchase agreements are entered into. Other reserves are also recognized as other financing uses to indicate that certain assets (such as inventories) are not available for appropriation. Cancellations of encumbrances and other fund balance reserves are recorded as other financing sources for budgetary purposes.

Under the budgetary basis, property tax revenues are recognized to the extent that they are collectible within one year after year-end. Under the modified accrual basis, property tax revenues are recognized only to the extent that they are collectible within 60 days.

For budgetary purposes, investment income is recognized prior to the effect of changes in the fair value of investments. Under the modified accrual basis, the effects of such fair value changes have been recognized.

Expenditures are controlled on the object level for all District budgets. Any excess of budgeted expenditures and other financing uses over revenue and other financing sources is financed by beginning available fund balance as provided for in the County Budget Act. There were no excesses of expenditures over the related appropriations within any fund at June 30, 2003.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

3. RECONCILIATION OF OPERATIONS ON MODIFIED ACCRUAL BASIS TO BUDGETARY BASIS (CONTINUED)

The District's Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types has been prepared on the modified accrual basis of accounting in accordance with GAAP. The Budgetary Comparison Schedule – General Fund and the Budgetary Comparison Schedule – Debt Service have been prepared on the budgetary basis, which is different from GAAP.

The following schedule is a reconciliation of the budgetary and GAAP fund balances as of June 30, 2003 (in Thousands):

	<u>General Fund</u>	<u>Debt Service</u>
Fund balance – budgetary basis	\$119,827	29,139
Reserves and designations	<u>133,055</u>	<u>-</u>
Subtotal	252,882	29,139
Adjustments:		
Changes in accruals	<u>(810)</u>	<u>37,631</u>
Fund balance – GAAP basis	<u>\$252,072</u>	<u>66,770</u>

4. BENEFITS ASSESSMENTS

The District's primary revenue source is the assessments which are levied annually on each of the approximately 2.2 million parcels within the District's boundaries. The District, as authorized by the Government Code, levied an assessment on each parcel of real property within the District. The rate and method of apportionment used in levying annual assessments for various categories of property is established in the Engineer's Report for County of Los Angeles Landscaping and Lighting District No. 92-1. The level of each assessment is based on the size and use of each parcel and the resulting benefit each parcel will receive from the proposed projects. The estimation of such benefit is quantified by benefit points, which is based on the 1996 Proposition.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

4. BENEFITS ASSESSMENTS (CONTINUED)

The annual rate of each assessment may not exceed \$14.46 per benefit point. The annual assessment for any parcel will consequently equal the annual rate multiplied by the number of benefit points applicable to each parcel. The assessment may be levied annually for a period of 22 years.

The expenditures of the District that are funded from the proceeds of the annual assessments levied and collected are distributed as follows: a minimum of 80% (but not more than 85%) of the assessments are used for the payment of debt service on bonds, notes and other obligations issued by the District and for the direct capitalized costs incurred on approved projects; 15% of assessments are used for maintenance and servicing of completed projects; and up to 5% of the assessment are used to pay for the District's ongoing administrative expenses.

5. TRANSACTIONS WITH THE COUNTY AND OTHER AGENCIES

The County is responsible for providing all necessary employees to the District for purposes of performing all District functions. Costs related to these employees are billed to the District based upon actual time spent providing District services. Accordingly, the District has no salaries and employee benefit expenditures or supplies inventory. Accrued expenditures in the amount of \$3,662,000 as of June 30, 2003, for services provided by the County and other agencies for reimbursable projects, have been recorded as "Due to Los Angeles County".

6. CASH AND INVESTMENTS

Pooled Cash and Investments

As provided for by the Government Code, cash balances of the District are pooled and invested by the County Treasurer and are subject to withdrawal from the pool upon demand. The District's share of the total pooled cash and investments, included in the accompanying combined balance sheet under "Pooled cash and investments," was \$320,910,271 and represents approximately 2.3% of the total pool.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

6. CASH AND INVESTMENTS (CONTINUED)

Interest earned on pooled investments is deposited monthly based upon the average daily deposit balance during the allocation period. Investment gains and losses are proportionately shared by the entities participating in the pool as an increase or reduction in interest earnings.

Investments

The California Government Code, and the Los Angeles County Treasurer and Tax Collector's investment policy generally authorize the District to invest in obligations of the United States Treasury, federal agencies, certain municipal obligations, asset-backed securities, bankers' acceptance, negotiable certificates of deposit, corporate and depository notes, floating rate notes, commercial paper, money market mutual funds, repurchase agreements and reverse repurchase agreements.

In accordance with the Governmental Accounting Standards Board ("GASB") Statement Number 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements", individual investments of the District are categorized separately to give an indication of the level of credit risk assumed by the District at year-end. The defined categories are as follows: Category 1 - investments that are insured or registered or for which the securities are held by the District or its custodial agent, which must be a different institution other than the party through which the District purchased the securities, in the agent's nominee name, with subsidiary records listing the District as the legal owner. Category 2 - uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the District's name (except for those securities that are held by the same department or agent that purchased the securities for the District). Category 3 - uninsured and unregistered investments for which the securities are held by the dealer's agent but not in the District's name. Category 3 also includes all securities held by the broker-dealer agent of the District (the party that purchased the securities for the District) regardless of whether or not the securities are being held in the District's name.

GASB Statement Number 3 exempts participating entities from classifying their pool investments in categories of credit risk. Credit risk information for the entire County Treasurer pool is presented in the County of Los Angeles Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2003.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

7. LONG-TERM OBLIGATIONS

On November 1, 1997, the District issued \$510,185,000 in Limited Obligation Improvement Bonds, Series 1997A, with interest rates ranging from 4.2% to 6.0%. The bonds were issued to advance refund the outstanding principal of the Series 1994A Bonds, and for acquisition, restoration, improvement, and preservation of beach, park, wildlife, and open space resources within the District. The bonds are payable from the proceeds of annual assessments levied on parcels within the district boundaries. Interest is payable April 1 and October 1 of each year. Final bonds mature in 2019. The outstanding balance as of June 30, 2003 is \$394,735,000.

The bond indentures require that the bond reserve be maintained in an amount, which is equal to the maximum amount of principal and interest becoming due in any single future six months period. The maximum amount of principal and interest becoming due in any single future six months period is \$36,854,500. The District has established a reserve account in accordance with the bond indenture. The reserve account has a balance of \$37,516,680 as of June 30, 2003.

A portion of the refunding bond proceeds were used to purchase U.S. Government Securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. Accordingly, the refunded bonds are considered defeased and the liabilities for these bonds are not included in the Statement of Net Assets. As of June 30, 2003, \$134,115,000 of the defeased 1994 bonds remains outstanding.

The following is a summary of the changes in outstanding bonded indebtedness during the fiscal year ended June 30, 2003:

<u>Balance at July 1, 2002</u>	<u>Additions 2002-03</u>	<u>Reductions 2002-03</u>	<u>Balance at June 30, 2003</u>	<u>Amount Due Within One Year</u>
<u>\$412,295,000</u>	<u>-</u>	<u>17,560,000</u>	<u>394,735,000</u>	<u>18,525,000</u>

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Financial Statements

(Continued)

8. INTERFUND TRANSFERS

Transfers in and out for the year ended June 30, 2003 are as follows:

<u>Transfers from</u>	<u>Transfers to</u>	<u>Amount</u>
General Fund	Debt Service Fund	\$38,632,020 (1)

(1) To transfer funds to cover debt service payment for Series 1997A Bond.

9. CONTINGENT LIABILITIES

Claims and suits have been filed against the District in the normal course of business. The outcome of these matters is not presently determinable. However, in the opinion of management, the resolution of these matters is not expected to have a significant impact of the financial condition of the District.

10. UNRESTRICTED NET ASSETS

GASB Statement No. 34 requires that local governments record in the statement of net assets the local government's liability for debt issued to finance the construction and acquisition of assets to be owned by other parties. GASB Statements No. 33 and 34 do not permit the recognition of assets for future tax increment revenues that are pledged for the annual retirement of bonded debt issuances. The negative equity resulting from the reporting of the District's liability for this debt is required by GASB No. 34 to be reported as unrestricted net assets.

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REQUIRED SUPPLEMENTARY INFORMATION

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Budgetary Comparison Schedule General Fund

Year Ended June 30, 2003

(in Thousands)

	General Fund			Variance -
	Original Budget	Final Budget	Actual (Budgetary Basis)	Favorable (Unfavorable)
Revenues:				
Assessments	\$ 78,326	78,326	77,992	(334)
Investment income	9,550	9,550	6,558	(2,992)
Total revenues	87,876	87,876	84,550	(3,326)
Expenditures:				
Current-Recreation and cultural services:				
Services and supplies	20,692	20,692	4,392	16,300
Other charges	302,650	302,650	62,536	240,114
Total expenditures	323,342	323,342	66,928	256,414
Excess (deficiency) of revenues over (under) expenditures	(235,466)	(235,466)	17,622	253,088
Other financing sources (uses):				
Transfers from other funds	73,491	73,491	60,721	(12,770)
Transfers to other funds	(108,877)	(108,877)	(99,353)	9,524
Long-term debt proceeds	169,747	169,747	-	(169,747)
Appropriation for contingencies	(46)	(46)	-	46
Changes in reserves and designations	(1)	(1)	36,616	36,617
Other financing sources (uses) - net	134,314	134,314	(2,016)	(136,330)
Net change in fund balance	(101,152)	(101,152)	15,606	116,758
Fund balances at beginning of year	104,221	104,221	104,221	-
Fund balances at end of year	<u>\$ 3,069</u>	<u>3,069</u>	<u>119,827</u>	<u>116,758</u>

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Required Supplementary Information

Year ended June 30, 2003

1. BUDGETS AND BUDGETARY INFORMATION

In accordance with the provisions of Section 2900-29144 of the Government Code of the State of California (the "Government Code"), commonly known as the County Budget Act, a District budget is adopted on or before August 30 for each fiscal year. Budgets are adopted for the General Fund on a basis of accounting, which is different from generally accepted accounting principles ("GAAP").

For budgetary purposes, encumbrances and other reserves are also recorded as other financing uses at the time they are established. For encumbrances, this occurs at the time contracts or other purchase agreements are entered into. Other reserves are also recognized as other financing uses to indicate that certain assets (such as inventories) are not available for appropriation. Cancellations of encumbrances and other fund balance reserves are recorded as other financing sources for budgetary purposes.

Under the budgetary basis, property tax revenues are recognized to the extent that they are collectible within one year after year-end. Under the modified accrual basis, property tax revenues are recognized only to the extent that they are collectible within 60 days.

For budgetary purposes, investment income is recognized prior to the effect of changes in the fair value of investments. Under the modified accrual basis, the effects of such fair value changes have been recognized.

Expenditures are controlled on the object level for all District budgets. Any excess of budgeted expenditures and other financing uses over revenue and other financing sources is financed by beginning available fund balance as provided for in the County Budget Act. There were no excesses of expenditures over the related appropriations within any fund at June 30, 2003.

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Notes to Required Supplementary Information

(Continued)

2. RECONCILIATION OF OPERATIONS ON MODIFIED ACCRUAL BASIS TO BUDGETARY BASIS

The District's Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types has been prepared on the modified accrual basis of accounting in accordance with GAAP. The Budgetary Comparison Schedule – General Fund has been prepared on the budgetary basis, which is different from GAAP.

The following schedule is a reconciliation of the budgetary and GAAP fund balances as of June 30, 2003 (in Thousands):

	<u>General Fund</u>
Fund balance – budgetary basis	\$119,827
Reserves and designations	<u>133,055</u>
Subtotal	252,882
Adjustments:	
Change in accruals	<u>(810)</u>
Fund balance – GAAP basis	<u><u>\$252,072</u></u>

OTHER SUPPLEMENTARY INFORMATION

LOS ANGELES COUNTY REGIONAL PARK AND OPEN SPACE DISTRICT

Budgetary Comparison Schedule Debt Service Fund

Year Ended June 30, 2003

(in Thousands)

	Debt Service Fund			
	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Revenues:				
Investment income	\$ 1,400	1,400	410	(990)
Total revenues	1,400	1,400	410	(990)
Expenditures:				
Debt Service				
Principal	17,560	17,560	17,560	-
Interest	48,068	48,068	21,185	26,883
Total expenditures	65,628	65,628	38,745	26,883
Excess (deficiency) of revenues over (under) expenditures	(64,228)	(64,228)	(38,335)	25,893
Other financing sources (uses):				
Transfers from other funds	35,996	35,996	39,241	3,245
Transfers to other funds	(610)	(610)	(609)	1
Appropriation for contingencies	-	-	-	-
Changes in reserves and designations	-	-	-	-
Other financing sources (uses) - net	35,386	35,386	38,632	3,246
Net change in fund balance	(28,842)	(28,842)	297	29,139
Fund balance at beginning of year	28,842	28,842	28,842	-
Fund balances at end of year	\$ -	-	29,139	29,139

Board of Supervisors
Los Angeles County Regional Park
and Open Space District
Los Angeles, California

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROLS OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Los Angeles County Regional Park and Open Space District (the "District") as of and for the year ended June 30, 2003, and have issued our report thereon dated November 13, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an object of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no material instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a certain matter which we have communicated to the management of the District in a separate letter dated November 13, 2003.

Board of Supervisors
Los Angeles County Regional Park
and Open Space District
Page 2 of 2

This report is intended solely for the information and use of the Board of Supervisors and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

Conrad and Associates, L.L.P.

November 13, 2003

Board of Supervisors
Los Angeles County Regional Park and Open Space District
Los Angeles, California

In planning and performing our audit of the financial statements of the Los Angeles Regional Park and Open Space District (the "District") as of and for the year ended June 30, 2003, we considered its internal control structure and controls over compliance in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structures, nor render an opinion on compliance.

Our consideration of the internal control structure policies and procedures would not necessarily disclose all matters in the internal control structure that might constitute material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities that would be material to the financial statement may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses or reportable conditions.

However, during our audit, we became aware of other matters that we see as opportunities for strengthening internal controls and operating efficiency. We offer the following recommendations for consideration by the District to strengthen its internal control structure and to ensure compliance government regulations.

(1) Verification of Maintenance and Servicing Costs Claimed for Reimbursement

The Safe Neighborhood Parks Propositions of 1992 and 1996 provide maintenance and servicing funds to eligible agencies to offset increased maintenance costs resulting from Proposition funded projects. The District disbursed approximately \$13 million for maintenance and servicing costs during the fiscal year ended June 30, 2003. During our testing of these costs, we noted certain areas where improvements could be made.

- To adequately administer the maintenance and servicing funds, the District developed a written policy manual entitled "Policy Memorandum – Maintenance and Servicing". This memorandum establishes guidelines for the use of maintenance and servicing funds and procedures for obtaining them. We found the sixteen-page document to be very comprehensive and easy to follow. However, upon further review of this memorandum, we noted that eligible agencies seeking reimbursement for maintenance and servicing costs were not required to submit (or retain) support for expenditures claimed for reimbursement. Requiring eligible agencies to retain supporting documents would help ensure that maintenance and servicing funds are being expended for eligible purposes.

- Some maintenance and servicing are costs funded prior to being incurred, so it may not be practical to require eligible agencies to submit proof of expenditure along with the reimbursement claim. However, additional procedures should be performed to ensure that the maintenance and servicing funds are being used as intended. To provide additional assurance, the District should consider performing selected audits of eligible agencies that received these maintenance and servicing funds.

Recommendation

As previously recommended, the District should consider requiring eligible agencies to retain supporting documentation for maintenance and servicing costs incurred. The District may want to revise the “Policy Memorandum – Maintenance and Servicing” to include the following language: “An eligible agency is responsible for maintaining proof of expenditures for at least five (5) years from the date the expenditure was reimbursed.” The District would also need to adequately communicate this change to the eligible agencies receiving reimbursement for maintenance and servicing costs to ensure compliance with the maintenance and servicing policy.

We also recommend that eligible agencies that received funding for maintenance and servicing costs be subjected to audit. It is the practice of the District to contract with independent accounting firms to perform selected audits of eligible agencies that received Proposition funding for project costs. This is done to provide assurance that eligible agencies are expending Proposition funds in accordance with the requirements of the Proposition. The District should consider expanding the universe of costs (projects) subjected to audit to include not only project costs but also costs incurred by other County departments and costs incurred for maintenance and servicing costs. The audits selected for maintenance and servicing costs could be based on the amount of funds provided to the eligible agencies.

District Response

To enable the District to confirm that a grantee actually spent its Maintenance and Servicing Funds for costs approved by the District, the District will notify its grantees by letter that, beginning July 1, 2004, each grantee is required to retain supporting documentation for its expenditures for at least five years from the date that District funds covering that expenditure were received by the grantee. The District notification will specify that the documentation to be retained must be available for audit at any reasonable time upon notice by the District.

The District process for approval of Maintenance and Servicing Fund payments to a grantee requires review and approval of the grantee’s itemized budgets for maintenance of the facility before and after the District funded improvement project. Once the District has approved the difference between those itemized budgets as the additional maintenance costs eligible for use of District Maintenance and Servicing Funds, the grantee submits a request annually for

Maintenance and Servicing Funds in which the applicant certifies that its expenditures are in conformance with the budget previously approved by the District. Upon review and signed approval of each request by four members of the District administrative staff, the issuance of a District payment to the grantee is authorized. Using a similar process, the District approves one-time variations from an approved budget or approves a revised budget. The District also provides Maintenance and Servicing Funds in advance to cover one year's eligible costs in accordance with previously approved budget, and requires documentation of costs prior to any future year's payment. In all cases the District records contain a certification by the grantee that the District funds will pay for costs identified in a document that the District has approved.

The District also agrees that it should be able to validate the costs incurred by County departments that are paid from the District Administration Fund. The voter-approved Safe Neighborhood Parks Propositions of 1992 and 1996 specifically authorize the assessment revenue to pay for the County costs of administration of the District. The District does not need to notify the County to maintain records for audit purposes because it is County policy to retain records of expenditures for at least five years.

This report is intended solely for the information and use of the Board of Supervisors, District management and the Los Angeles County Auditor-Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.

Conrad and Associates, L.L.P.

November 13, 2003